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C O N F I D E N T I A L SECTION 01 OF 03 MOSCOW 000085

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SUBJECT: RUSSIA'S VNESHTORGBANK AND EADS (C-RE6-01894)

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[1](#)B. 2006 MOSCOW 13003

Classified By: ECON M/C Quanrud by reason 1.4 b and d.

[1](#)1. (C) Summary. A Senior Vneshtorgbank (VTB) official tells us VTB's decision in early summer to purchase 5.38 percent of EADS stock was made for investment/financial reasons alone, and without GOR political interference. The public announcement September 12 by Presidential Advisor Sergey Prihodko of the GOR's desire to obtain a seat on EADS' Board came as a surprise to VTB, who well understood a seat was not in the works, given bylaws created to protect the five original EADS shareholders from hostile maneuvers. While VTB President and Chairman of the Board Andrey Kostin sits on the Board of the emerging United Aircraft Corporation (UAC), he was not on the board at the time of the EADS stock purchase, and VTB says UAC did not factor into their original decision. VTB has no plans to sell the stock to UAC now; should they be forced to do so (and no official approach has been made to date) the bank would expect to receive full market price for the shares. End Summary.

VTB'S EADS STRATEGY VS. THE
KREMLIN'S DESIRE FOR A BOARD SEAT

[1](#)2. (C) In a December 29 meeting with Econ M/C and EconOff, Senior VTB Vice President Vassily Titov told us that VTB's initial purchase of EADS stock this past June was motivated by pure commercial considerations, and that the GOR was not part of the decision. VTB seeks in general to buy potentially profitable stock, regardless of whether it is EADS or not. Its purchase of 5.38 percent of EADS was undertaken because VTB analysis showed that at 13-18 Euros, EADS was undervalued. Since VTB's purchase, Airbus received certification for the A380 SuperJumbo, boosting the stock value significantly. Sold today, VTB would be up a cool \$100 million on the deal. If further financially attractive opportunities to buy EADS stock arose, VTB might pursue them, but the opposite was also true, although VTB considers EADS a good investment.

[1](#)3. (C) Titov said that the question of Russia obtaining a seat of EADS Board should be directed to Russian politicians, not businessmen. VTB never sought an EADS Board seat; knew even before the stock purchase that a seat was not in the

cards; and did not set out to be a strategic investor in EADS. (Note: Board membership requires the approval of the five original members and would likely only be approved after a much more significant acquisition of EADS stock.) Titov volunteered that even though VTB had not crossed the 10% reporting threshold requirement under Dutch law, it had disclosed its purchase publicly in the interest of transparency, not to put pressure on EADS.

14. (C) The GOR has articulated a more ambitious view of Russia's role in EADS. In the September lead up to the Franco-German-Russo Summit in Paris, Presidential Advisor Sergey Prihodko publicly called for Russia to raise its stake in EADS to 10 percent and join the Board, as part of a larger strategy to promote the Russian aircraft-manufacturing industry through the United Aircraft Corporation (UAC). (Titov stated flatly that he and other senior bank personnel were as surprised by Prihodko's announcement as anyone.) After fierce responses from both France and Germany to this suggestion, Putin and his European counterparts agreed in September to form a Franco-German-Russo Aviation Industry Working Group to explore avenues for cooperation and "possible board membership" for Russia, effectively taking the issue out of the headlines.

15. (SBU) EADS has every reason to be looking at Russian aircraft manufacturers for partnership opportunities, and likely finds the emerging UAC a more comfortable counterpart in many ways than the chaotic configuration of half-dead companies that compromised the remnants of the former Soviet civil aircraft manufacturing industry prior to UAC. More than a year ago, Russia was officially offered 3% of the work on the A350XWB, but that number will likely grow, as more than 45%

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of the work is now available for subcontracting. Discussions are moving beyond the A350 to include work on the A380 SuperJumbo and other projects. Already this week, EADS and UAC announced agreement to jointly build civilian transport cargo planes in the Moscow region starting later in 2007. In general, EADS will likely have to rely more heavily on UAC in its rush to find suppliers and thereby avoid further production delays for the A350XWB.

WILL VTB'S EADS STAKE MOVE TO UAC?

16. (C) According to Titov, VTB does not intend to sell its EADS stock to UAC, and no one has approached the firm to date with such a request. Asked what VTB would do if the GOR theoretically forced the bank to turn the stock over to UAC, Titov replied that the bank would expect to receive the full market price for the shares in order to cover its balance sheet. Publicly, Putin has said the GOR would seek EADS' approval before any stock transfer might take place.

17. (SBU) UAC officials, however, are eager for EADS shares. Deputy Prime Minister and UAC Chairman Sergey Ivanov has said that he would like to see UAC obtain the EADS shares as an "insurance policy" for UAC-EADS cooperation. Director-General of UAC Alexsey Fyodorov told the press, "We have ... never concealed our desire that UAC should ... hold ten percent of EADS, so as to ensure the industrial-strategic partnership." EADS, for its part, appears to have been trying to secure its partnership with Russia (in the first instance for aircraft sales) with a similar cross-investment strategy: EADS through its 10% ownership of Irkut, already owns approximately 1% of UAC. VTB President and representative on the UAC Board of Directors Andrey Kostin has suggested that "cooperation (with EADS) could be an exchange of stock, co-production, or even the creation of a Pan-European aircraft-manufacturing holding."

UAC-EADS NEGOTIATIONS ACTIVE . . .

¶8. (SBU) Discussions between UAC's emerging leadership and EADS have picked up in the wake of the formation of the Franco-German-Russo working group formed in September. Negotiating directly with EADS are Alexey Fyoderov, Director-General of UAC (formerly head of MiG), Mikhail Pogosyan, Deputy Director-General of UAC (head of Sukhoi), and Oleg Demchenko, head of Irkut. They all traveled to Toulouse, France the second week of December to meet with Louis Gallois, CEO of Airbus and Co-CEO of EADS, and Tom Enders, the other Co-CEO of EADS, and Olivier Andries, Executive Vice President of Airbus.

¶9. (C) Both Deputy Prime Minister and Minister of Defense Sergey Ivanov and Presidential Aide Igor Shuvalov appear solidly behind greater UAC-EADS cooperation. Sergey Ivanov has said publicly that the high-level make up of the UAC Board is a sign of GOR interest in the success of the aircraft-manufacturing sector but Ivanov has not articulated a clear preference for EADS over Boeing. Contacts confirm that Presidential Aide Igor Shuvalov prefers EADS to Boeing and has pushed for greater Russia-EADS cooperation for years (leading some to suspect that he has a personal stake at interest and that he blocked the Boeing deal).

. . . AND APPROACHING OFFSET TERRITORY

¶10. (C) There is already significant evidence that the evolving EADS-UAC relationship is spilling into the realm of commercial airline purchases -- at least for state-owned airline Aeroflot. The commercial merits of Aeroflot's potential deal with Boeing for 22 Dreamliners were seemingly unbeatable, especially after the A350XWB fell badly behind schedule last year. Regardless, the GOR now has explicitly linked the wide-body deal to cooperation with UAC (reftel B). As a further sign of the possible interlinking of the issues, Aeroflot last month renewed negotiations with Airbus

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for the A350XWBs and also chose to purchase without tender six A330s -- over adding to their existing Boeing 737 fleet.

COMMENT

¶11. (C) The GOR's hamfisted attempt to gain a seat at the EADS table this past fall was in many ways so unnecessary. EADS, one could argue, benefits as much from a strong Russian partner (to make up for its evident manufacturing gaps) as the newly emerging UAC needs strategic partners to help it past the starting blocks. The Russians potentially bring cash to the table, as well, which can't be unwelcome, but there are limits to that proposition as well. (Titov said VTB will only invest in EADS while it makes financial sense to do so, and the bank has no plans to join others in subsidizing EADS.) For its part, EADS has said publicly that Russia has nothing technologically new to offer Airbus, but that UAC could do basic work on part of the aircraft. That, in the end, may be where this entire conversation comes out. As for Boeing, we remind that Boeing is partnering with the only arm of UAC that even has a viable aircraft design on the table -- Sukhoi's Superjet100 -- so it is far too early to count them out this game.
RUSSELL